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RESEARCH PAPER

The internet and value co-creation: the case of the popular music industry

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The paper explores the importance of internet-facilitated value co-creation, especially in cultural industries. Through an extensive review of the literature, it shows that in many industries, a transformational shift is taking place from value creation to value co-creation, which is fundamentally changing the relationship between consumers and producers. In particular, the paper examines value creation and co-creation in the popular music industry. This reveals that though much of the research on music and the internet has revolved around the issue of music piracy, evidence is now emerging that the internet is enabling some record labels, musicians and fans to work together to co-create value for mutual benefit. The paper concludes by arguing that value co-creation is an important development that can transform the relationship between consumers and producers, and that in the popular music industry value co-creation can promote new, more positive, relationships among record labels, artists and fans.

Introduction

The traditional view of value creation has been that:

> … firms can act autonomously in designing products, developing production processes, crafting marketing messages, and controlling sales channels with little or no interference from or interaction with consumers. (Prahalad and Ramaswamy, 2003, p.6)

From this perspective, value is created by firms rather than by means of an interactive and communicative process undertaken with customers (Wikstrom, 1996). However, in the marketing field, a different perspective has emerged which challenges this passive view of the consumer's role (Prahalad, 2004; Vargo and Lusch, 2004; Gronroos, 2006). As Sawhney and Kotler (2001, p.392) note, 'instead of thinking of marketing as hunting for customers, we need to think of marketing as cultivating relationships with customers and complementors'. A typical example of in-company value creation is the early Microsoft products, produced (i.e. value was created) exclusively by its own staff and then sold for public consumption. The view in Microsoft was that it developed a standardised product for the customer, not a personalised product with the customer (Cusumano and Selby, 1997).

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All this changed in the 1990s when Microsoft began releasing beta versions of its software for its customers to test, debug and improve. Some 650,000 customers were involved in testing/co-developing Windows 2000. Beta software is intended for 'tech professionals and developers, or those with a fair bit of computer experience' (Oswald, 2006). In the case of Windows 2000, it is estimated that this army of free labour saved Microsoft some $500m in staff time (Prahalad and Ramaswamy, 2000). Also, when the software went on general sale, it was a much improved product. In addition, developers benefited by being able to get to grips with the new software and start developing their own compatible products before Vista was launched, and users benefited from a better operating system and the unique and personalised experience of being involved in its development. Therefore, rather than seeking to put protective barriers between themselves and their consumers, competitors and suppliers, firms such as Microsoft are now seeking to cultivate social knowledge and involve diverse actors in the value creation process (Sawhney and Prandelli, 2000; Sawheny *et al*., 2005).

This paradigm shift has been given a variety of names, such as 'open innovation' (Chesbrough, 2003), 'user-led innovation' (von Hippel, 2009), 'wikinomics' (Tapscott and Williams, 2007) and 'co-creation experience' (Prahalad and Ramaswamy, 2000), though it is most often labelled 'service-dominant logic' (Vargo and Lusch, 2004). Regardless of the name, what is being described is a new way in which value is created and innovation occurs, one where customers are value co-creators, knowledge providers, collaborative innovators and providers of competitive advantages for firms. Another example of co-creation in the computer industry is the open-source software movement. This is where users have full access to the source code and can make their own changes to a programme to meet their personal needs. The end result is that the software provider has access to a pool of free software developers, and users end up with a unique product that meets their personal needs (von Hippel, 2009). Researchers have identified such value co-creation activities in a diverse range of businesses, such as the Italian hotel industry (Ordanini and Parasuraman, 2011), library information systems (Morrison and Roberts, 2000), security software (Franke and von Hippel, 2003), the sports industry (Franke and Shah, 2003; Luthje and Herstatt, 2005) and surgical equipment (Lettl *et al*., 2006).

The internet and its attendant social media are making possible new and more effective ways for producers and consumers to collaborate, and for consumer groups to co-ordinate their activities (Sawhney *et al*., 2005; Deighton and Kornfeld, 2009; Hennig-Thurau *et al*., 2010). Examples of this include knowledge co-production in electronic services (Blazevic and Lievens, 2008), the development of brand communities (Schau *et al*., 2009) and virtual co-creation projects (Fuller, 2010). Two recent literature reviews have shown that value co-creation and user-led innovation practices are extensive and increasing (Bogers *et al*., 2010; Greer and Lei, 2012). Importantly, such initiatives do not seem to be intended to achieve short-term profit or sales targets. Rather they are seen as a way of creating a long-term, win–win situation for both customers and supplier relationships, a way which delivers tangible benefits in terms of better goods and services, and reduced costs and/or increased revenues (Lepak *et al*., 2007; Blazevic and Lievens, 2008; Michel *et al*., 2008; Hoffman and Fodor, 2010).

As the above shows, researchers have identified value co-creation activities in many areas of business; however, one area which appears to have been neglected is the cultural sector (e.g. TV, radio, film, theatre, books, advertisements and popular music). Cultural industries are distinct in that they produce mainly symbolic goods – goods, such as books and paintings, whose value arises from their ability to bring forth an emotional response from consumers (O'Connor, 2000). Value co-creation in these industries arises less from producing tangible benefits for consumers and more from increasing symbolic–emotional value.

This paper focuses on one particular cultural industry – popular music. This is for three reasons. Firstly, it is perhaps the most ubiquitous and pervasive of all the cultural industries, and one to which most people can readily relate. Secondly, it is an industry that has been quick to adopt the internet in pursuit of economic value, but in so doing has exposed itself to illegal file-sharing on an enormous scale, which has brought it into conflict with the very fans whose support it needs. Lastly, as this paper will show, it is an industry where co-creation offers the opportunity to overcome the conflict between producers and consumers, and unite record labels, artists and fans in the pursuit of the type of value they seek, whether that be economic or symbolic. Consequently, this paper, which is based on an extensive review of the literature, has three aims:

(1) to understand the nature and importance of value co-creation;
(2) to show that in cultural industries, value needs to be seen in symbolic as well as economic terms; and
(3) to argue that the development of co-creation activities challenges the current win–lose, music piracy perspective on the impact of the internet on the music industry.

The paper begins by describing how the literature review was undertaken. It then presents the marketing literature's changing views of value and value co-creation. This is followed by an examination of the impact of the internet on creativity and culture. This leads on to a brief review of the traditional view of value creation in the popular music industry and an investigation of how the internet is fostering value co-creation in the industry. The paper concludes by arguing that, in the digital era, value creation in the popular music industry may increasingly become a collaborative activity which will foster new, more positive relationships between creators and consumers of music.

Methodology

To understand value creation and co-creation in the digital age, three different bodies of literature were reviewed: business and management; digital culture and cultural economics; and the popular music industry. The review of business and management was centred on the changing views of value and value co-creation in the marketing literature. With respect to digital culture and cultural economics, the review was centred on literature involving cultural studies of media production and consumption in the digital age. Lastly, reviewing the popular music industry was guided by literature on music industry research and the sociology of popular music.

This paper uses a literature review to provide a research synthesis. Although literature reviews are part of almost all research, Weed (2005) advises caution in their use. He argues that literature reviews can sometimes be used to establish the case for a particular point of view and may not present a balanced view of the literature or offer sufficient analysis and evaluation of it. However, in the case of this paper, extensive bodies of research and the growing interest in value co-creation, particularly in cultural industries, calls for a synthesised review 'to bring coherence and perspective to problem areas' (Cooper, 1988, p.105).

Cooper (1988) suggests a taxonomy of literature reviews which offers the six key characteristics of reviews, which are the focus, goal, perspective, coverage, organisation and audience. According to Cooper, in using the taxonomy, one can highlight 'the perspective of the reviewer; the intended coverage of the review; the organisation of the review; and the review's intended audience' (1988, p.108). A review can focus on research outcomes, methods, theories and practices. A goal of the review can be to integrate past literature, critically analyse literature or identify central issues. The reviewer can present literature neutrally, or the review can be based on a reviewer's point of view. The coverage of the review can be exhaustive, but including every available source is likely to be difficult. Alternatively, the review can cover literature selectively. In addition, the review can concentrate on works which are pivotal or representative. The organisation of the review can be historical, conceptual and methodological. Lastly, the review can target specialised or general scholars, practitioners, policy makers or members of the general public.

Based on Cooper's taxonomy, the literature review in this paper focuses on previous research outcomes and theories, especially those of Vargo and Lusch (2004, 2008, 2011) in the areas of service-dominant logic and value co-creation. Secondly, the goal of this paper is to integrate literature on the subject of value co-creation within the context of cultural industries, particularly the music industry. Thirdly, the perspective of this paper is taken from the authors' viewpoint, namely that there is a transformational shift from value creation to value co-creation in many industries. Fourthly, the literature is cited selectively, and some seminal works, such as those by Vargo and Lusch (2004) on marketing and those by Jenkins (2006) and Benkler (2006) on cultural studies of media production and consumption in the digital age, influenced how the fields were reviewed. Fifthly, the organisation of this paper is conceptual rather than historical or methodological. Lastly, the paper targets specialised scholars, such as music industry academics and practitioners in the music industry.

Although the review of the business and management literature showed a great deal of interest in value and value co-creation, it tended to centre on the production of new, tangible goods at the firm level, and there has been little research into popular culture and its audiences. To address this gap, we reviewed the literature on cultural studies of media production and consumption in the digital age, which proved a rich source of information about popular culture audiences and their activities. By searching and reviewing these papers, it was possible to show that they share similar ideas and perspectives with the marketing literature's changing views of value and value co-creation in terms of the active role of consumers and their value creation and co-creation activities.

Having reviewed these two bodies of literature, we then went on to look at the literature on value creation in the popular music industry. Firstly, we examined traditional views on value creation in the industry, which showed that value creation was controlled by the major record labels. However, there was also a countervailing view that, in some instances, music fans were also involved in value creation. Secondly, we examined the impact of the internet on value creation and co-creation in the popular music industry. This examination appeared to show that the internet was opening up new possibilities and mechanisms for fans to be involved in value co-creation. The remainder of this paper presents our findings, beginning with an examination of value co-creation.

Value co-creation and service-dominant logic

Traditional assumptions of value creation and the role of producers and consumers have been challenged recently by the idea that value is not created solely by producers in the market, but is co-created by the consumers of products and services (Zwick *et al.*, 2008). This goes against the idea of a distinct demarcation between producers and consumers, and reflects the changing views of the nature of the value chain in firms (Prahalad and Ramaswamy, 2000; Vargo and Lusch, 2004). Where once it was seen as a linear process, the value chain is increasingly viewed as networked and distributed to other parties (Achrol and Kotler, 1999; Lusch *et al.*, 2010). A key driver of this is the rise of interactive media forms and business models, such as the social networking site MySpace, which are enabling greater consumer participation in the development of products and services, resulting in a more personal consumer experience (Wirtz *et al.*, 2010). Because of the openness of the digital space, information can be shared and distributed in a way that could not have been imagined when information was controlled within the firm and processed through a linear value chain (Evans and Wurster, 1997). Also, it is now possible for consumers to overcome the constraints of time and geography and to form communities of consumers that interact with each other (Kozinets, 1999). It is not uncommon now to see co-creation playing an important role, not only among business partners, but also between producers and consumers (Vargo and Lusch, 2008). In these circumstances, value creation is not solely governed by a firm; rather it needs to be seen as a collective process whose stakeholders include diverse businesses and consumers (Layton, 2007, 2011; Lusch and Webster, 2011). Under these conditions, 'value develops and emerges over time, rather than being a discrete event' (Frow and Payne, 2011, p.226).

Co-creation is central to the concept of the 'service-dominant (S-D) logic of marketing' which has emerged in recent years (Vargo and Lusch, 2008). S-D logic rejects the notion that value is embedded in goods and that the value creation process is the exclusive preserve of companies. Instead, S-D logic focuses on the interaction with consumers, which enable value to be co-created (Vargo and Lusch, 2004; Lusch and Vargo, 2006). For example, luxury hotels in Italy have been working with their customers and local organisations, such as restaurants, art galleries and shuttle services, to create 'a truly innovative and profitable set of services' (Ordanini and Parasuraman, 2011, p.18). It is argued that this continuous and dynamic process of service personalisation provides better value to consumers and enables companies to achieve improved financial outcomes (Vargo and Lusch, 2004; Lusch *et al.*, 2010). In the context of S-D logic, where 'service is exchanged for service', all actors are value creators and resource integrators (Vargo and Lusch, 2008, p.6). Therefore, value creation, which used to be governed by firm-centric perspectives and fragmented into different disciplines, such as business-to-business (B2B) marketing and consumer behaviour, is now seen as a process which dissolves the line between producers and consumers and turns everyone into value co-creators (Vargo and Lusch, 2011).

This network view of value co-creation has been described in various studies (Normann and Ramirez, 1993; Gummesson, 2006; Layton, 2007, 2011; Cova and

Salle, 2008; Vargo, 2009; Lusch *et al.*, 2010), and is known by a number of names, such as 'value constellations' (Normann and Ramirez, 1993), 'many-to-many marketing' (Gummesson, 2006), 'marketing system' (Layton, 2007, 2011), 'service ecosystem' (Vargo, 2009), 'dialogical interaction' (Ballantyne and Varey, 2006, 2008) and 'interactive marketing' (Gronroos, 2006, 2008). Its advocates stress that the importance of value creation during consumption lies in the way that value-in-use can be realised through customers' everyday practices (Gronroos, 2008), which can lead to the process of 'learning together and hence to knowledge renewal' (Ballantyne and Varey, 2006, p.346) so that 'a mutual learning process is born' (Wikstrom, 1996, p.361). For example, the interaction which takes place when a customer uses a software company's helpline can allow the company to improve its software and after sales service. The company can offer the customer a personalised service which meets customer needs and helps develop product understanding and computer skills. The concept of value-in-use is also a recognition that consumers will experience a product in quite different ways (Vargo and Lusch, 2004). For example, people buy 4 × 4 vehicles for very different reasons; a farmer for work, someone living in a remote area to get round in bad weather, and someone else for off-road sport. The 4 × 4 designer needs to understand all these uses to design a vehicle that all these people want to own. Gummesson (2006, p.349) argues that it is necessary to have so-called 'many-to-many marketing' which, unlike one-to-one marketing, consists of 'supplier networks interacting with customer networks … addressing the whole context of a complex world'. From this perspective, there is no clear distinction between suppliers and customers, and all relationships take the form B2B2C2C2B2B (Gummesson, 2006, p.350).

Value co-creation has been greatly enhanced by the rise of the internet and its associated interactive media forms (Prahalad and Ramaswamy, 2000; Lusch *et al.*, 2010). Allied to this is the convergence of industries and technologies that is shifting the traditional boundaries of products and services [e.g. the convergence of computing and telephony to create smart phones and the attendant rise of the 'apps' industry (MacMillan *et al.*, 2010). As a consequence, customers' knowledge and skills can become a valuable resource for firms, allowing them to gain the flexibility needed to adapt to the rapidly-changing business environment (Prahalad and Ramaswamy, 2000). Therefore, not surprisingly, co-creation has grown in parallel with, and dependent on, the development of the internet.

The digital economy, creativity and co-creation

Web 2.0 is a networked information economy which, it is claimed, harnesses collective intelligence, encourages human creativity and promotes participation (Benkler, 2006; Madden and Fox, 2006; O'Reilly, 2007; Ritzer and Jurgenson, 2010). Nambisan and Baron (2007, p.42) maintain that the internet has created 'virtual customer environments (VCE), which … enable firms to involve their customers in innovation and value creation'. Of course, consumer participation is not new. There is a long tradition of readers sending letters to the editors of newspapers and, more recently, homemade video clips submitted to television programmes (Uricchio, 2004b; Deuze, 2007). Consumer participation is also widespread in everyday life, as in the use of ATMs, filling up with petrol and self-service restaurants (Ritzer and Jurgenson, 2010). However, the rise of many-to-many communication forms is transforming the way that people share and distribute information about everyday life, especially digital material (such as photos and videos), and create unique digital spaces (such as YouTube, MySpace and Flickr), which allow participants and enthusiasts to interact in new ways (Uricchio, 2004a, 2004b; Benkler, 2006; Beer, 2008; Ritzer and Jurgenson, 2010; Gauntlett, 2011). Nowhere is this more apparent than in the rise of the 'citizen journalist', whose ubiquitous camera phone now provides the defining images of major news stories such as the London bombings in July 2005 and the Arab Spring in 2011 (Ang, 2005; Batty, 2011).

This participation of ordinary people has been variously termed 'wikinomics' (Tapscott and Williams, 2007), 'common-based peer production' (Benkler, 2006), 'participatory culture' (Uricchio, 2004a, 2004b; Jenkins, 2006), 'produsage' (Bruns, 2006), 'collective intelligence' (Levy, 1997) and 'prosumerism' (Ritzer and Jurgenson, 2010). These concepts all share the idea that passive consumers/audiences have become active value creators. As Cover (2006, p.140) argues:

> … a digital environment promoting interactivity has fostered a greater capacity and a greater interest by audiences to change, alter and manipulate a text or a textual narrative, to seek co-participation in authorship, and to thus redefine the traditional author–text–audience relationship.

Undoubtedly the prime example of this is the development of apps for the iPhone and other smart phones. The iPhone offers consumers a blank canvas which, through their choice of apps, they can personalise to suit their lifestyle needs (MacMillan *et al.*, 2010). This consumer demand for a unique and personalised phone has also brought about an unprecedented outpouring of creativity by app developers, often working with consumers, which has resulted in Apple now having over 500,000 available apps. Nor is this virtuous circle of phone suppliers, app developers and consumers merely co-creating better mobile entertainment. One of the fastest-growing areas for phone apps is the health field, where consumers want cheap and simple mobile monitoring technology to manage their own health when and where they want (Sarasohn-Kahn, 2010).

This technology-enabled convergence of provider and consumer interests is emerging across the cultural industries. The essence of the convergence argument is that top-down commercial priorities and bottom-up everyday creativity gain momentum through each party's interest in negotiating, or capitalising on, the possibilities of the digital space (Jenkins, 2004; Uricchio, 2004a; Jenkins and Deuze, 2008). Deuze (2007) examined four sectors – journalism, marketing, computer games and advertising – and found that media work in commercial creative industries is increasingly a shared and negotiated process of value co-creation between traditional media workers and audiences. Other researchers have also identified such convergence in forms such as YouTube (Burgess and Green, 2009), reality TV programmes and Hollywood films (Jenkins, 2006) and the BBC TV programme, *Doctor Who* (Perryman, 2008).

Benkler (2006) maintains that the emergence of interactivity and networked environments has given rise to a non-market and decentralised co-operation system, which stands opposed to the commercial market system. Consequently, 'today's users of information are not only today's readers and consumers, they are also today's producers and tomorrow's innovators' (Benkler, 2006, p.38). This emergence of cultural production outside the traditional media landscape has profound implications, as Uricchio (2007, p.24) observes:

> By embracing bottom-up dynamics, they will better reflect a wide range of social values, not just the ruling elite. By addressing cultural production that takes place outside of confines of corporate media, they will assume a much wider range of social granularity.

Others take a less rosy view, arguing that user participation is a way of exploiting free labour to achieve commercial objectives, and that corporate power still controls information (Terranova, 2000; Allen, 2008; Scholz, 2008; Van Dijck, 2009; Van Dijck and Nieborg, 2009). Fuchs (2009, p.82) defines user creativity and participation in cyberspace as a 'prosumer commodity/produser commodity' and argues that it 'does not signify a democratization of the media towards participatory systems, but the total commodification of human creativity'. Similarly, Allen (2008) criticises Web 2.0, saying that it 'validates a kind of advanced, promotional entrepreneurial capitalism that binds users to profit-making service providers via the exploitation of those users' immaterial labour'.

The argument that the commodity economy is exploiting participatory consumers (the gift economy) is challenged by those who see a mutually beneficial convergence between grassroots creativity and commercial industries (Barbrook, 1998; Uricchio, 2004a; Deuze, 2007; Jenkins and Deuze, 2008; Burgess and Green, 2009). Banks and Humphreys (2008) maintain that consumer-audience participation should not be seen as a simple case of the exploitation of free labour, but rather as a dynamic open environment in which to co-create value. For Jenkins (2004, 2006), this co-creation of cultural value drives grassroots creativity and creates a complex and mutually-beneficial alliance between the consumer and corporate interests. Potts *et al*., (2008, pp.169–70) take a similar position, arguing that this is not a simple, linear process, but a complex, iterative one whereby 'the interrelationship among agents, networks and enterprise is dynamic and productive; all are engaged in the mutual enterprise of creating values, both symbolic and economic'.

In introducing the concept of symbolic value alongside economic value, Potts *et al*., challenge the traditional notion that value can be separated into only two categories: use value (the quality or reliability of a product or service) and exchange value (what someone is prepared to pay for the product or service) (Lepak *et al*., 2007). Others have raised similar challenges to the dominance of economic value. For example, Sheth *et al*., (1991) have drawn attention to the influence of social and emotional value on purchasing decisions. A similar challenge is posed by the work of Nambisan and Baron (2010, p.555), who argue that, in the case of online communities, value can take on a different meaning because it becomes intertwined with social identity so that 'member identification with the community enhances the value of the perceived benefits from the community'. This raises interesting questions about the arguments of Lepak *et al*., (2007, p.191) that 'value creation and value capture are two distinct processes'. As will be shown below, much of the value that fans of popular music gain from their participation in online communities comes from the sense of identity that being a member of the community gives them. While co-creating value through their development of the online community, they are capturing value through an enhanced sense of social identity. For some individuals and groups, value creation and value capture may not be distinct processes, but may be so inextricably linked that they are the same process.

Popular music – the traditional approach to value creation

The popular music industry has been dominated by a few major record labels since the end of the nineteenth century; indeed, one company, Sony BGM, now controls 30% of the global music market (Negus, 1998; Bishop, 2005; Rayna and Striukova, 2009). However, while the major labels were very profitable in the 1960s and 1970s, in recent years they have found it much more difficult to make money, with sales falling and losses rising (Jones, 2012). To reduce market uncertainty and overcome the high failure rates of new artists, the major labels tend to favour strategies such as 'star-making', giving priority to those musical genres and market segments which are most profitable, and resorting to over-production (the post-production use of computer software to remove defects from vocals and instruments on recording) (Burnett, 1996; Negus, 1998; Garofalo, 1999; Frith, 2001).

Though classed as a cultural industry, big music companies operate in the same manner as other big businesses, using methods such as portfolio analysis to identify 'cash cows' (rock music) and 'dogs' (world music) (Negus, 1998). The key aim of the major labels is to control the supply of music and to prioritise the profitable genres and artists, which can obviously put them in conflict with fans and artists (Hirsch, 1972; Jones, 2002; Rayna and Striukova, 2009). From this perspective, the music industry supports the argument of Lepak *et al*., (2007, p.191) that 'value creation and value capture are two distinct processes' (i.e. musicians create value in the recording studio and the big companies capture the value through their control of distribution channels and copyright). This control also makes it difficult for small companies, who tend to promote niche genres, to enter the market and threaten the value-capturing ability of their bigger counterparts (Alexander, 1994; Kretschmer *et al*., 2001; Graham *et al*., 2004; Lewis *et al*., 2005). As a consequence of their ability to choose what music gets made and played, the major labels are seen to inhibit musical innovation and diversity (Peterson and Berger, 1975; Bishop, 2005).

Adorno (1990) argues that the major labels have commoditised music to the extent that music production resembles the assembly-line production of standardised products. The aim is not musical excellence, but profit maximisation. This echoes Frith's (1987, p.54) observation that 'the industrialization of pop music means a shift from active musical production to passive pop consumption'. An example of this is the continuous string of manufactured, identikit 'boy bands' and 'girl bands' produced by such music moguls as Simon Cowell (Gray, 2008; Clawson, 2011). It appears that the music industry, in the form of the major labels, has followed the traditional pattern of value creation whereby consumers have little or no role to play in the development, selection and distribution of products and services (Prahalad and Ramaswamy, 2003). Nor do the artists have much say in these things, because, as Adorno (1990) argues, the major labels' control over production and distribution channels allows them to shape musical tastes by deciding which artists and genres to support and which to ignore. Others, though, challenge this portrayal of the music consumer as a passive and marginalised actor in the consumption process (Riesman, 1950 ; Hebdige, 1979; Lewis, 1992; Williams, 2001).

> … the commodities produced by the music industry are actively 'appropriated' by various groups and individuals and used for the repression of subjective identities, symbolic resistance, leisure pursuits and music creation in everyday life. (Negus, 1995, p.321)

> … while audiences have historically been physically separated or dislocated from most of the *sites* of musical production, they are not separate from the *processes* of musical production [emphasis in original]. (Negus, 1995, p.35)

Therefore, there is evidence that music consumers, particularly the younger, hard-core fans, can co-create value and thus capture non-monetary value. However, as Gronroos and Voima (2013) point out, co-creation requires direct interaction between producers and consumers. In the music industry, this has been limited by the absence of an enabling technology which would allow fans to surmount obstacles of time and space (Negus, 1995; Kibby, 2000; Jones, 2002). The advent of the internet, especially Web 2.0, offers the potential to overcome these obstacles and open up opportunities for value co-creation.

Popular music and value co-creation in the digital age

The internet offers new opportunities and challenges to the music industry's traditional business and management practices, particularly in terms of digital distribution, changing consumer behaviour and intellectual property management (McCourt and Burkart, 2003; Molteni and Ordanini, 2003; Fox, 2004; Vaccaro and Cohn, 2004; Lewis *et al*., 2005; Styven, 2007). Many writers have suggested that the major labels will benefit most from this new environment through their control of production and distribution channels, and intellectual property rights (Kretschmer *et al*., 2001; McCourt and Burkart, 2003; Morrow, 2009; Young and Collins, 2010; Morris, 2011). Despite this, the major labels seem far more pessimistic than the small, independent producers about the benefits the internet will bring (Kretschmer *et al*., 2001; Furgason, 2009). For example, there is the temptation for star performers to establish their own independent labels, or for the independents to use the internet to circumvent the big labels' control of distribution and develop direct relations between musicians and audiences (Alexander, 1994; Hayward, 1995; Garofalo, 1999; Kretschmer *et al*., 2001; Pfahl, 2001; Jones, 2002; McLeod, 2005).

The major record labels see the pre-eminent threat to their market power and revenue streams as coming from internet-facilitated music piracy, which the Recording Industry Association of America says costs $12.5bn per year (RIAA, 2012a). The response of the big labels has been to declare war on file-sharing organisations and those who use them, threatening individual users with fines of $250,000 and five-year jail sentences (Sprawson, 2005; RIAA, 2012b; Sweney, 2012). The irony is that piracy seems most prevalent amongst adolescents from well-off families who also happen to be the main target demographic for the majority of new releases. When they graduate from university, these people will become the core of the music industry's market (Mathews, 2008; Gunter *et al*., 2010). The big labels have, in effect, declared war on their future.

There are examples from smaller labels that fostering musical communities leads to the co-creation of value and to the development of revenue streams and intellectual property rights. In the past, the notion of a music community, a group of people brought together by their shared allegiance to a particular band, artist or musical genre, has tended to be associated with a local and physical geographical area (Gay, 1995; Kibby, 2000). However, the global availability of music and the communication potential of the internet have changed the notion of what constitutes a musical community; geography is no longer a barrier to social interaction (Fenster, 1995;

Baym and Burnett, 2009). As Jones (2002, p.226) claims, 'the internet's insertion into industry and fan practices has meant that relations of audience/performer/space/geography/time are made problematic and have shifted in ways that have not yet been analysed'. An early example of this is the decision in 1996 by Oh Boy Records, a small independent record company based in Nashville, Tennessee, to set up an internet chat page for one of its major artists, John Prine (Kibby, 2000). This quickly became a place where fans could meet 'virtually' to share information and interact with Prine. Through the chat page, a fan community was established which, given the geographical dispersion of Prine's fans, would otherwise have been impossible. Instead of an impersonal relationship mediated by a major record label, fans experience a much more personal relationship with the artist through the creation of a virtual customer environment (Kibby, 2000; Nambisan and Baron, 2007).

In fact, the Prine initiative developed into a win–win–win situation. The record company and Prine benefited financially from greater record sales, Prine also benefited emotionally and creatively from a closer link with his fans, and the fans benefited, amongst other things, from a greater sense of social identity that belonging to the Prine community gave them. In this case, there is no distinction between the customer–musician relationships and value co-creation: both are part of the same process and one cannot exist without the other. As Kibby (2000, p.91) observes:

> The ritual exchange of information online allows fans a feeling of community between themselves and between them and the performer, facilitating a belief in a commonality, although they are dispersed geographically and disparate in needs and experiences. An electronic place in which to 'gather' enables a direct link between fans, and even makes possible a direct connection between fans and performers. The link benefits not only the fans, but also the performer and the record company, in that it provides a connection to a central focus of the performer and the producer, the marketplace.

A more radical example of how the internet is changing the nature of relations between fans, artists and labels can be found in Sweden. In early 2008, seven independent Swedish labels formed a coalition they called the Swedish Model. As Baym (2011, p.23) observes:

> The Swedish Model demonstrates how relations among media producers and consumers can be reoriented toward gifts [i.e. free products and services] without losing sight of the market. Through their practices, which include giving much of their music away and interacting directly with their audiences online, they invoke values of trust, egalitarianism, and community in place of the suspicion, hierarchy, and depersonalized markets that characterize the mainstream music industry's approach.

As Baym and Burnett (2009) show, this allows Swedish independent music to be disseminated and promoted globally through the internet. Unlike the John Prine example, the active participation of fans is not just limited to an online context, but has also expanded to offline activities, such as organising concerts in various cities, including London: 'together these fans create an international presence far beyond what these labels or bands could attain on their own' (Baym and Burnett, 2009, p.437). The Swedish experience appears to show that the relationship among independent record labels, musicians and fans can be interactive and tied by trust, which leads to the co-creation of musical value (Baym and Burnett, 2009). Baym (2011, p.35) argues that this works because 'instead of seeing audiences as revenue sources waiting to be correctly monetized, artists view audiences as allies in a cause that has many ways to break even or at least turn an adequate profit'.

As with the Prine example, the closer, internet-mediated, relationship between fans and musicians leads to value co-creation, with different groups receiving different forms of value, which enhances the relationship between fans and musicians. In effect, a virtuous circle is created whereby the closer musician–fan relationship leads to value co-creation which, in turn, enhances the relationship and then goes on to promote new and innovative initiatives for co-creating value. An example of the innovations arising from the internet-facilitated ability of musicians and fans to develop closer relationships is the fan-funded model of music production, as seen in the example of ArtistShare (Wikstrom, 2009; Chaney, 2010; Ordanini *et al.*, 2011).

> ArtistShare is a platform that connects creative artists with fans in order to share the creative process and fund the creation of new artistic works. ArtistShare created the Internet's first *fan funding* platform for artists launching its initial project in October, 2003. … ArtistShare projects have received countless awards and accolades including 5 Grammy awards and 15 Grammy nominations. Our artist roster includes some of today's most prestigious artists including Pulitzer prize and Oscar nominated writers, Guggenheim fellowship recipients and NEA Jazz Masters [emphasis in original]. (ArtistShare, 2012)

This may not be a major challenge to the dominant players in the industry: where fan-funded artists become successful, they may be attracted by the financial and promotional muscle of the major labels (Lindvall, 2010). However, there do seem to be significant opportunities for smaller, independent record producers to take on the major labels by using the internet to offer a more personal and focussed 'entertainment experience over and above listening to the music itself' (Fox, 2004, p.215). Styven (2007, p.68) insists that consumers want to be able to access 'a wide selection of music along with value-added features'. This resonates with studies showing there has been a rise in active audience participation in musical value creation (Hughes and Lang, 2003; Baym and Burnett, 2009; Wikstrom, 2009; Chaney, 2010; Baym, 2011; Ordanini *et al.*, 2011; Lingel and Naaman, 2012). It also chimes with the convergence between music consumption and production, and the emergence of business models which re-intermediate the value chain in the music industry, such as pay-per-play (Graham *et al.*, 2004; Leyshon *et al.*, 2005; Hardaker and Graham, 2008).

That the music industry is in the throes of significant changes is not really at issue. What is a matter of dispute is where the changes will lead. It seems to be too early to tell whether the major labels really do face a life-threatening challenge, but as Jones (2002, p.229) remarks, 'The internet and technologies of new media have, if nothing else, expanded the places and contexts of popular music'. In so doing, the internet has allowed fans and musicians to develop the non-monetary value they receive from music and, in significant instances, especially the Swedish Model and ArtistShare, music fans have moved from being passive consumers to active value co-creators. Therefore, rather than focusing their energies on containing piracy, the big labels might be better off looking at ways of working with young music fans to stimulate value co-creation. To use a phrase much associated with popular music in the 1960s, they should 'make love, not war'!

Conclusion

The aims of this paper were threefold: first, to understand the nature and importance of value co-creation. In addressing this, we have shown that in many industries a transformational shift is taking place from value creation to value co-creation, which is fundamentally changing the relationship between consumers and producers (Vargo and Lusch, 2004). This is particularly the case in the news media where, rather than being passive recipients of products and services, consumers now form part of a diverse network of actors co-creating value (Ang, 2005; Sawhney *et al*., 2005; Sawhney and Prandelli, 2000). In addition, we have shown that one of the main driving-enabling forces behind this move to co-creation has been the advent of the internet, and especially the ability of Web 2.0 to promote participative creativity (Ritzer and Jurgenson, 2010).

The second aim was to show that in cultural industries, value needs to be seen in symbolic as well as economic terms. We challenged the traditional notion that value can be separated only into use value and exchange value by examining the motivation of consumers to participate in such websites as YouTube, MySpace and Flickr. Ordinary people were able to share cultural material and both enhance and personalise its symbolic–emotional value to them (Burgess and Green, 2009; Batty, 2011). In addition, we argued that participation in online communities can also bring value through enhancing an individual's sense of social identity.

The third aim was to show that the development of co-creation activities challenges the current win–lose, music piracy perspective on the impact of the internet on the music industry. In the popular music industry, we found significant examples of the way the internet is enabling fans, artists and smaller record labels to change established, standardised approaches to music production and consumption and in so doing create a win–win–win situation for labels, artists and fans, with each gaining a different mix of economic and symbolic value (Kibby, 2000; Baym, 2011). In showing that internet-facilitated co-creation can enhance value for all parties, we also argued that the big labels might gain more from looking at ways of working with young music fans to stimulate value co-creation, rather than declaring war on them.

We have sought to move the focus from fans undermining the music industry through piracy, to fans enhancing and co-creating value in partnership with artists and small record labels. We have shown that rather than being relegated to the role of passive recipients of increasingly standardised musical outputs, fans can play an important role in co-creating musical value and thus enhancing and personalising their own musical experience (Baym and Burnett, 2009). In particular, by creating strong virtual communities where 'gifts' are exchanged (i.e. artists and labels provide free outputs in exchange for the fans' free input of their time, ideas and support), a win–win–win situation is created for all the parties (Barbrook, 1998; Burgess and Green, 2009). In addition, the attraction of piracy is diminished because, in effect, the fans would be stealing from themselves.

As Cooper (1982, p.300) argues, it is almost impossible to claim perfectly valid conclusions from a literature review. However, we do believe that this paper has shown that value co-creation is an important development that may transform the relationship between consumers and producers, especially in cultural industries, where symbolic as well as economic value is important. It has also shown that, in the popular music industry, value co-creation is promoting new, more positive relationships among record labels, artists and fans and offering an alternative to the antagonistic relations being engendered by the war on piracy.

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